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National Intelligence Bulletin

December 23, 1974

CONTENTS



25X1

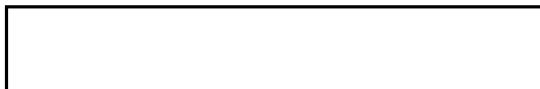
WEST GERMANY: Chancellor Schmidt's modest antirecessionary program aims at achieving 2-percent real growth next year. (Page 4)

EUROPEAN COMMUNISTS: Budapest meeting of European Communists made progress toward a formal European conference, while avoiding most divisive subjects. (Page 6)

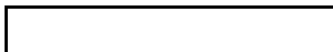
CUBA: Havana is making significant progress in expanding and improving its international contacts. (Page 8)

CAMBODIA: Sporadic fighting continues. (Page 11)

SOUTH VIETNAM: The pace of the two-week-old Communist offensive in southern South Vietnam has slackened. (Page 13)



25X1



25X1

Approved For Release 2007/03/07 : CIA-RDP79T00975A027300010010-7

Next 2 Page(s) In Document Exempt

Approved For Release 2007/03/07 : CIA-RDP79T00975A027300010010-7

National Intelligence Bulletin

December 23, 1974

WEST GERMANY

The modest antirecessionary program sent to the Bundestag by West German Chancellor Schmidt last week is designed to achieve 2-percent real growth next year while keeping inflation at 6 percent or less. There was little or no real growth this year, and the inflation rate has been about 7 percent.

Its main features are:

--A 7.5-percent tax rebate on new investments from December 1 through June 30, 1975.

--Rescheduling of a large share of the government investment planned for 1975 into the first half of the year.

--New public works spending of \$450 million.

--Subsidy payments of \$240 million to stimulate employment.

--Use of countercyclical funds--money accumulated during the boom years--to help offset budget deficits of federal and state governments.

The program will add, at most, about \$1 billion to spending next year. The amount is limited by design, since a much more important stimulative force will affect growth in 1975--a long-scheduled tax reform that will boost disposable income of German consumers by \$6 billion.

The key element of the new program is the tax rebate, which is designed to revive private investment. There will be little incentive to expand capital spending beyond that already planned, however, since most industries are operating below capacity and sales gains are expected to be restricted next year. Schmidt hopes that limiting the tax incentive to seven months will serve to concentrate investment spending and provide an impetus for economic recovery.

National Intelligence Bulletin

December 23, 1974

The Bundesbank has set money supply growth at 8 percent next year, compared to 6 percent this year. Heavy government borrowing will limit credit available for private loans, despite the use of offsetting countercyclical funds to cover part of the deficit.

Because of his concern over rising unemployment and the economic downturn at home and abroad, Schmidt would have preferred a more expansionary program. Forecasts show German unemployment exceeding 1 million workers this winter.

25X6

The increase in import demand likely to result from this program probably will do little to reduce the huge trade surpluses West Germany is running with the other EC members.

25X1

National Intelligence BulletinDecember 23, 1974

EUROPEAN COMMUNISTS

The three-day preliminary meeting of European Communist parties, which ended Saturday in Budapest, made further progress toward arranging a formal European party conference and apparently avoided most divisive subjects.

A highlight of the session was the particularly strong defense of detente by Boris Ponomarev, CPSU Central Committee secretary in charge of relations with non-ruling parties. According to the US embassy, Ponomarev tackled head-on the arguments of those (i.e., some Western Communists) who believe that Moscow's policy of detente is sacrificing their interests. He implied that Soviet pursuit of detente takes precedence over the aspirations of the Western Communist parties.

Ponomarev's remarks were probably distasteful to those Western Communist parties that are anxious to participate in government and hope that the West's deepening economic troubles will improve their prospects. The brief communiqué issued at the end of the session indicates a lack of unanimity, stating that the participants in the meeting "set forth their parties' viewpoints."

Sergio Segre, head of the Italian party's international section, said the participants had followed a "gentlemen's agreement" to avoid controversial issues, such as China, that were not on the agenda. The Romanian delegate, however, reiterated his party's position that the European conference should not criticize or censure other parties. He also was less enthusiastic about detente than the Soviets.

The 28 parties represented at the meeting agreed to set up a drafting committee to prepare documents for the European conference and also agreed to hold seminars on substantive issues raised at Budapest. Another preliminary meeting to consider these draft documents may be held before the actual conference takes place.

National Intelligence Bulletin

December 23, 1974

No date has been set for the European conference, which will be held in East Berlin. The Soviets apparently want to wait until after the European security conference, which is not likely to conclude before next spring at the earliest. The Budapest meeting issued another call for an early conclusion of the security conference.

The communiqué makes no mention of a world Communist conference, one of the potentially disruptive questions that the meeting may have avoided intentionally. Presumably, however, the Soviets are still interested in using the European conference as a stepping-stone toward a world gathering.

25X1

National Intelligence BulletinDecember 23, 1974

CUBA

Havana has made significant headway in recent weeks expanding and improving its international contacts.

Diplomatic relations were established with the Bahamas and the Malagasy Republic in the past month. In addition, the Cuban and Venezuelan UN ambassadors began discussions in New York on December 20 aimed at resuming diplomatic relations, severed by Venezuela in 1964. Cuba then will have formal ties with 11 nations of the hemisphere, including eight members of the Organization of American States.

Relations with the Vatican were normalized on December 19, when the Vatican chargé post was upgraded to papal nuncio. Similarly, the Spanish commerce minister, who recently visited Cuba to arrange the largest bilateral trade agreement ever concluded by Spain, hinted as he departed for home on December 16 that the two countries--represented at the chargé level for over a decade--may soon exchange ambassadors.

Current negotiations also will soon result in Cuban diplomatic relations with West Germany and with Malaysia.

25X1

These events clearly represent a concerted effort by Havana to break down old political and commercial barriers and normalize its relations with the rest of the world. Cuba has been uncomfortable with its one-sided economic relationship with, and heavy dependence

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National Intelligence Bulletin

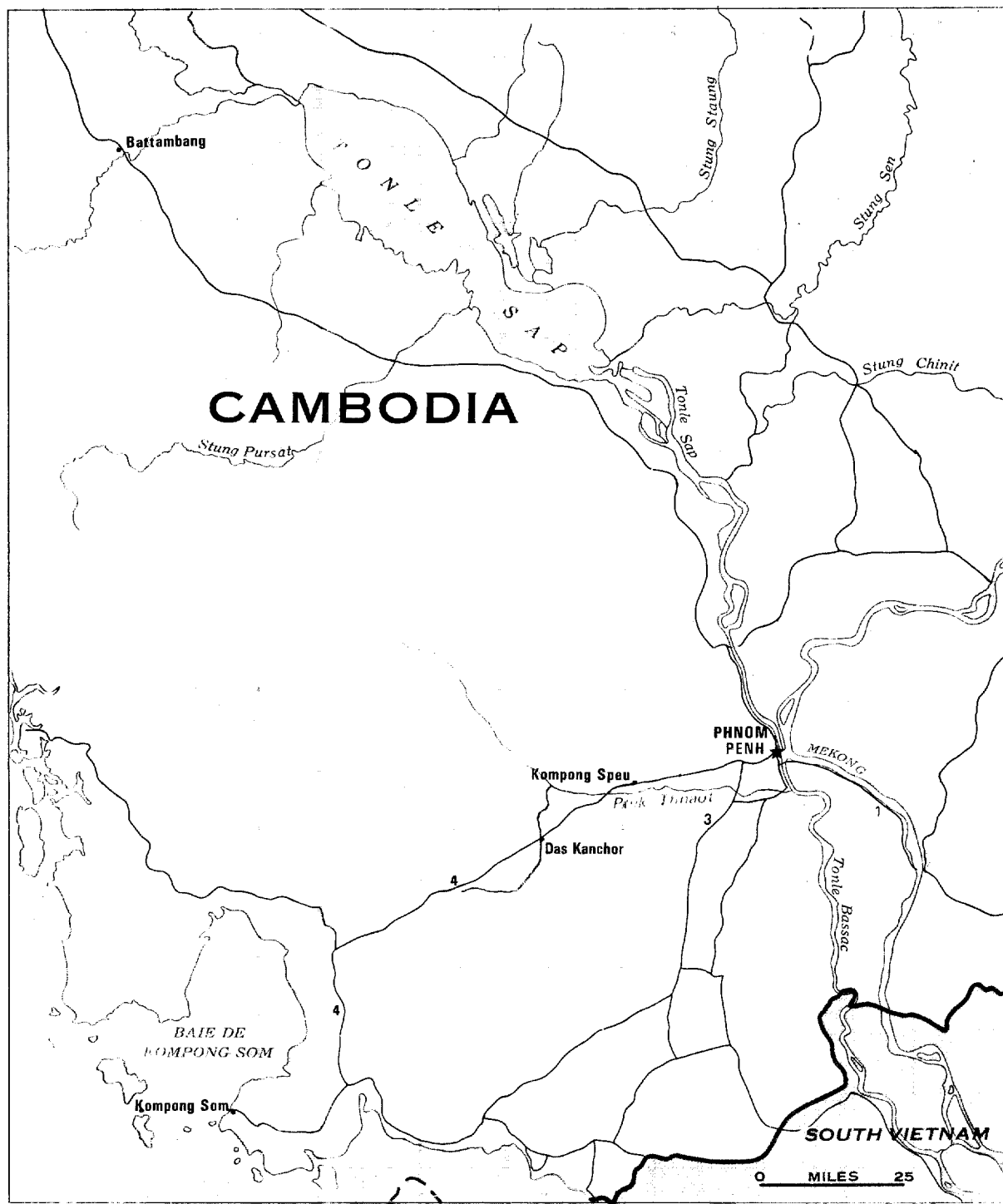
December 23, 1974

on, the USSR and is determined to increase its options. It has been increasingly successful in these efforts since 1968, and prospects appear particularly good in Latin America. In light of Venezuela's talks on recognition of Cuba, several other OAS members will be tempted to take similar action.

25X1

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25X1



National Intelligence Bulletin

December 23, 1974

CAMBODIA

Sporadic fighting continues in parts of Cambodia as government troops attempt to consolidate positions, retake lost terrain, and maintain lines of communication.

Southeast of Phnom Penh, the Khmer Communists have pushed back government troops near Route 1, but reinforced Cambodian units, supported by tactical air strikes, recaptured terrain along the east bank of the Bassac River. Government forces also have launched an operation along Route 3 south of the capital in an attempt to divert enemy forces from the Bassac fighting.

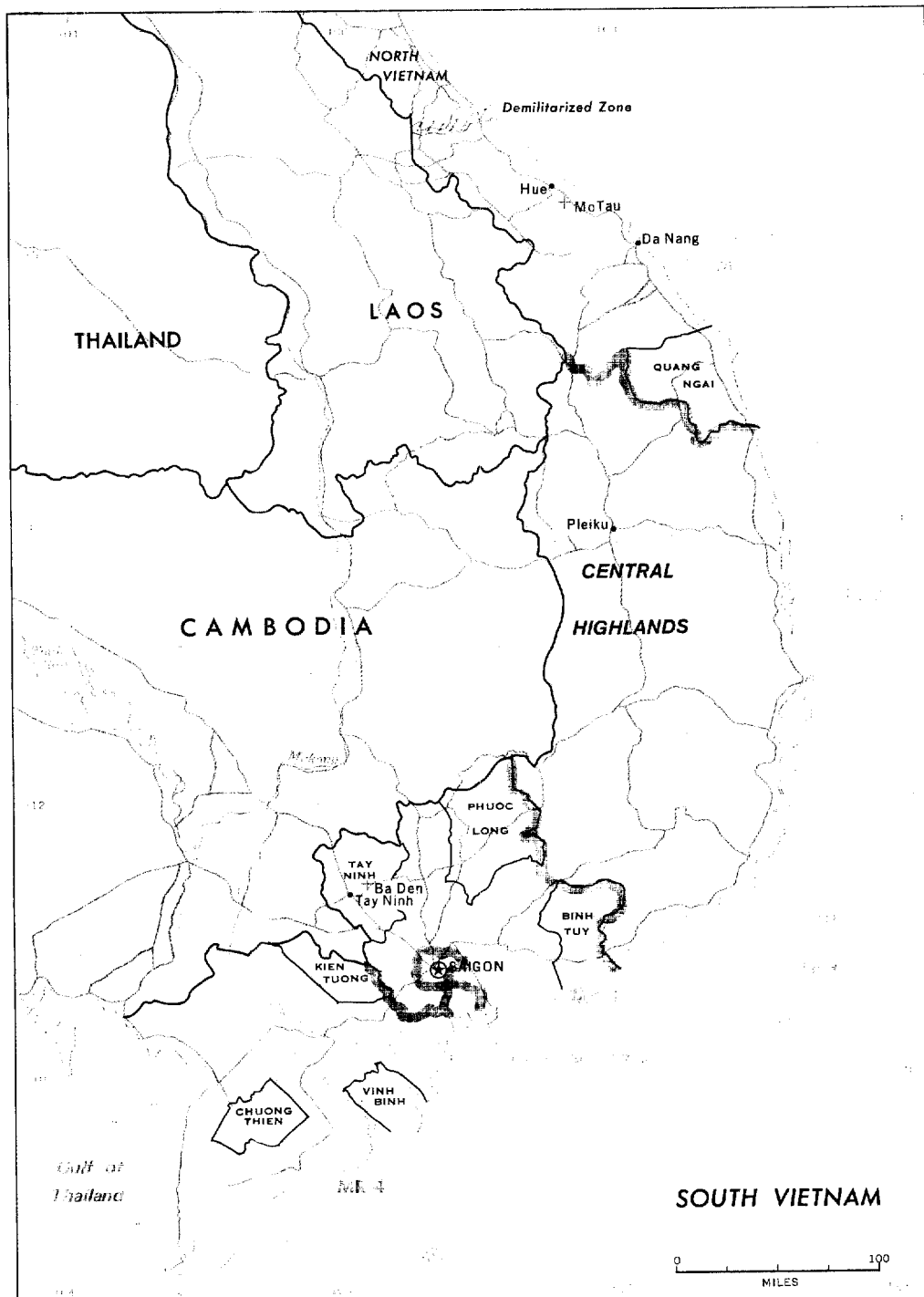
Government initiatives may force the insurgents to alter the timetable for their planned interdiction campaign along the lower Mekong by delaying the redeployment of Communist troops from the Bassac area. Meanwhile, Mekong convoys continue to reach Phnom Penh without serious incident.

Southwest of the capital, insurgent forces appear to be preparing for a concerted effort to eliminate the isolated garrison at Das Kanchor. The Communists have increased pressure on the enclave, and last week they managed to penetrate the perimeter before being driven back by the defenders. Although outnumbered two to one, government forces have a substantial firepower advantage.

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A major enemy logistic corridor crosses Route 4 northeast of Das Kanchor. Elimination of the government enclave would give the Communists complete control of the area and enable them to concentrate on the provincial capital of Kompong Speu.

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National Intelligence BulletinDecember 23, 1974

SOUTH VIETNAM

The level of combat in southern South Vietnam has diminished from that noted earlier in the two-week-old Communist winter-spring campaign.

In Military Region 3, activity in Tay Ninh, Phuoc Long, and Binh Tuy provinces in the past few days has consisted mostly of shellings and small ground probes. Renewed fighting is anticipated by South Vietnamese commanders, who believe the Communists are now regrouping. Saigon's troops are trying to clear the Communists from positions in villages northeast of Tay Ninh City and relieve the beleaguered garrison at Ba Den Mountain.

In Military Region 4, the North Vietnamese 5th Division units involved in the recent attacks in Kien Tuong Province are refitting. Communist forces are attempting to keep the South Vietnamese off balance by harassing government positions. In Chuong Thien Province, the Communists are holding onto recent gains, but no new attacks on government holdings have been reported. The new government commander in the region hopes to counter future Communist attacks by forming strong mobile reaction forces. The first of these groups has already been assigned the job of countering the Communist thrust in Vinh Binh Province.

There have been a few fairly intense battles in the northern part of the country, but they have resulted largely from government initiatives and do not mark the start of a campaign in the north. Heavy rains and accompanying floods in several areas are hampering operations by both sides in Military Region 1.

Government units near Mo Tau Mountain, south of Hue, continue to encounter enemy resistance, but the North Vietnamese have not yet tried to retake the mountain, which was only recently recaptured by South Vietnamese forces. Government forces have, however, reportedly decided to withdraw from a hilltop position west of Da Nang, the better to align their forces to defend that city. This hill was the site of prolonged

National Intelligence Bulletin

December 23, 1974

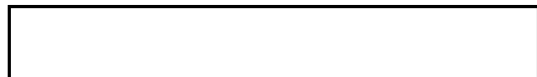
fighting in October and November, and control of it would give the Communists easier access to the lowland areas near Da Nang.

There has been little combat elsewhere in Military Regions 1 and 2, but government operations now under way in Quang Ngai Province and near Pleiku City, in the central highlands, could mean increased fighting.

25X1

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